

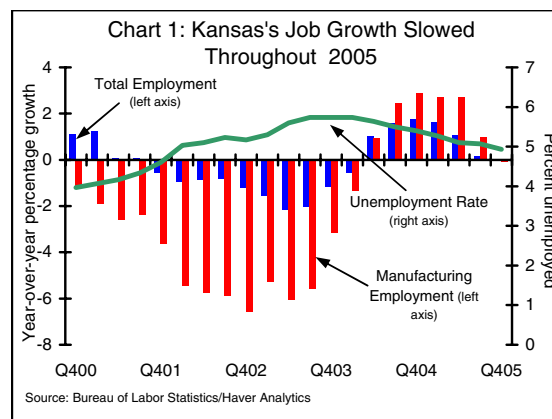
# FDIC State Profile

Spring 2006

## Kansas

The Kansas economy expanded at only a sluggish pace in the fourth quarter 2005.

- The Kansas economy gained fewer than 3,000 jobs in the fourth quarter 2005, contributing to an increase of fewer than 1,000 jobs for the year, compared to nearly 23,000 jobs gained in 2004.
- Year-over-year employment growth declined for four consecutive quarters to reach just 0.03 percent in the fourth quarter, compared to the national rate of 1.4 percent (see Chart 1).
- Despite lackluster job growth, the unemployment rate in the fourth quarter declined to 4.9 percent, the lowest level reported since fourth quarter 2001.



**Kansas farm income is expected to decline in 2006.**

- The United States Department of Agriculture (USDA) has forecasted a 22 percent decline in national farm income from 2005 to 2006 due to lower livestock and crop values and increased energy costs. Kansas farm incomes will also decline in 2006, but less significantly due to the state's mix of crops.
- Wheat prices are forecast to remain unchanged from the previous two years, as planted acreage, inventories, and export demand are not expected to change substantially. Corn and soybean prices are forecast to decline 13 percent and 11 percent, respectively, as two years of record harvests have led to substantial accumulations of inventories (see Table 1).
- Cattle prices will begin to moderate in 2006 as the cattle population is expanding in response to the high prices enjoyed in 2004 and 2005. The nationwide population of cattle increased in 2005 for the first time since 1994.

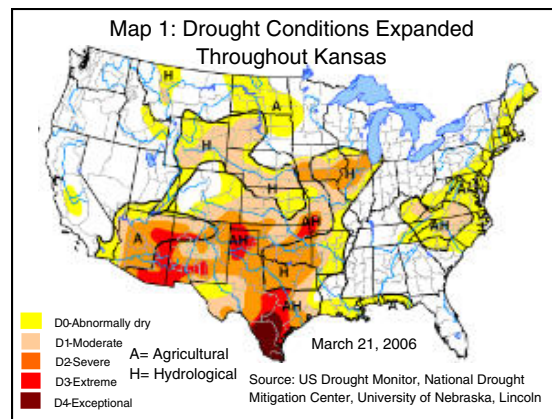
**Table 1: Most Commodity Prices Are Expected to Decline in 2006**

	2003	2004	Est. 2005	Forecast 2006	% of KS Ag Cash Receipts
Corn	2.32	2.42	2.06	1.90	8.8
Soybeans	5.53	7.34	5.74	5.50	5.6
Wheat	3.56	3.40	3.40	3.40	11.7
Cattle	84.69	84.75	87.28	85.50	59.4
Hogs	39.45	52.51	50.05	43.50	4.0
Other					10.5

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock are per hundredweight.  
Source: USDA WASDE, February, 2006

**Drought conditions have re-emerged across Kansas.**

- Drought conditions, which began in 2000 and abated in early 2005, reappeared in late 2005 and have expanded across the majority of Kansas (see Map 1).



## State Profile

- Unseasonably warm, dry weather has left nearly 75 percent of Kansas with “short” or “very short” soil moisture depths.<sup>1</sup>
- In the long-term, the Climate Prediction Center forecasts continued below average precipitation and above average temperatures for the state.

### Energy prices for Kansas farmers are forecasted to rise again in 2006.

- According to the USDA, in February 2006 fertilizer and fuel costs were up 16 percent and 30 percent, respectively, from one year earlier. Overall, fertilizer and fuel costs are forecasted to increase 9.7 percent nationally in 2006 (see Table 2).<sup>2</sup>
- Rising costs for fertilizer and fuel are in part due to increased global fuel demand and the continued recovery from last year’s active hurricane season; in the Gulf region, approximately 17 percent of normal natural gas production and 25 percent of oil production remain off-line.<sup>3</sup>
- Nationally, the USDA estimates that fuel and fertilizer costs accounted for 10.9 percent of total agricultural production costs in 2005, up 11 percent from 2004.

### Insured institutions in Kansas continued to report strong earnings performance in 2005.

- Kansas insured institutions reported a median annual 2005 return on assets (ROA) of 1.02 percent, up slightly from the prior year. The ROA improvement was due to improved net interest margins (NIM) and lower loan loss provisioning.
- The median annual NIM improved even as funding costs increased more rapidly than earning asset yields (see Chart 2). The spread between loan and security yields and funding interest costs has narrowed two and three consecutive years, respectively.
- A sizeable shift in earning assets mix from securities to loans, which tend to be higher yielding than securities, offset the negative effects of narrowing yield-cost spreads. The median loan-to-assets ratio increased from 60.1 percent in 2003 to a near-historical high 62.3 percent in 2005.

### Insured institutions in Kansas reported sharp increases in construction and development loan (C&D) concentrations.

- Insured institutions, particularly those headquartered in the state’s larger urban markets, reported strong growth

in C&D lending in 2005, boosting C&D concentrations to new highs (see Chart 3). This type of loan tends to have higher risk but also yields higher returns.

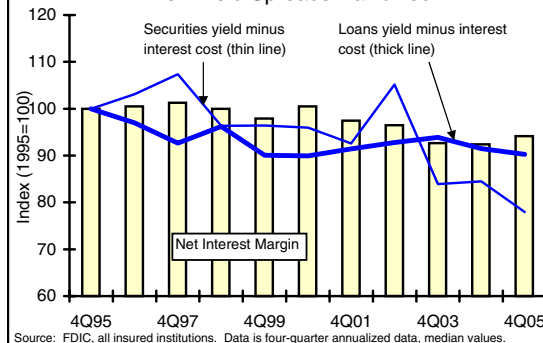
- Although state C&D concentrations have increased, they remain subdued relative to national figures. Nationally, the median C&D concentrations for metropolitan and micropolitan areas are 61 percent and 28 percent, respectively.

**Table 2: Higher Energy Costs Are Expected for Kansas Farmers in 2006**

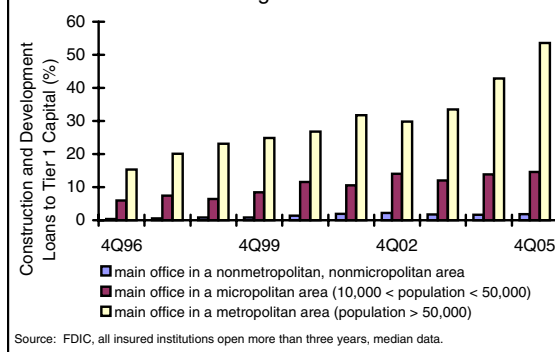
	Acres* (1,000)	Cost per acre** 2006 estimates		Cost per acre** 2000-2004 Avg.	
		Fuel	Fertilizer	Fuel	Fertilizer
Corn	3,650	41.94	58.25	24.26	42.47
Soybeans	2,900	13.52	10.25	8.49	7.69
Wheat	10,000	16.95	28.24	10.38	21.20

\*Estimated 2005 planted acres. \*\* Cost per acre for nation.  
Source: USDA/NASS Crop Production, USDA/ERS Cost and Returns Data.

**Chart 2: Kansas Institutions' NIM Increased Although Their Yield Spreads Narrowed**



**Chart 3: Construction Lending Increased Sharply in Kansas's Larger Urban Centers**



<sup>1</sup>NASS, USDA, *Weekly Weather and Crop Bulletin, State Stories*, February 7, 2006.

<sup>2</sup>NASS, USDA, *Agricultural Prices*, February 28, 2006.

<sup>3</sup>Office of Electricity Delivery and Energy Reliability (OE), U.S. Department of Energy, *Final Gulf Coast Hurricanes Situation Report (#46)*, January 26, 2006.

## Kansas at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.2%	0.1%	1.7%	1.0%	-1.7%
Manufacturing (13%)	0.0%	1.0%	2.8%	1.2%	-5.0%
Other (non-manufacturing) Goods-Producing (5%)	0.0%	-0.9%	2.9%	1.4%	-0.6%
Private Service-Producing (62%)	0.1%	0.0%	1.7%	1.0%	-1.5%
Government (19%)	0.7%	0.2%	0.7%	0.3%	-0.2%
Unemployment Rate (% of labor force)	4.9	5.1	5.4	5.6	5.6

<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	5.3%	6.5%	5.0%	2.8%
Single-Family Home Permits	36.0%	9.0%	-20.6%	-0.6%	11.6%
Multifamily Building Permits	72.0%	32.3%	-66.4%	-53.4%	39.4%
Existing Home Sales	6.8%	8.4%	5.4%	12.4%	8.8%
Home Price Index	4.7%	5.5%	5.2%	4.9%	3.5%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	10.72	8.46	5.24	5.85	5.83

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	371	371	372	372	380
Total Assets (in millions)	60,548	59,055	57,819	57,819	53,056
New Institutions (# < 3 years)	4	3	3	3	8
Subchapter S Institutions	164	160	157	157	150

<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.37	1.45	1.45	1.45	1.63
ALLL/Total Loans (median %)	1.30	1.35	1.37	1.37	1.38
ALLL/Noncurrent Loans (median multiple)	2.28	2.09	2.17	2.17	2.06
Net Loan Losses / Total Loans (median %)	0.04	0.01	0.05	0.07	0.10

<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.74	9.98	9.55	9.55	9.34
Return on Assets (median %)	0.94	1.14	0.90	1.00	0.97
Pretax Return on Assets (median %)	1.15	1.34	1.07	1.23	1.23
Net Interest Margin (median %)	4.11	4.09	4.04	3.96	3.97
Yield on Earning Assets (median %)	6.16	6.00	5.59	5.47	5.75
Cost of Funding Earning Assets (median %)	2.08	1.93	1.51	1.50	1.75
Provisions to Avg. Assets (median %)	0.02	0.01	0.04	0.08	0.11
Noninterest Income to Avg. Assets (median %)	0.62	0.63	0.63	0.61	0.64
Overhead to Avg. Assets (median %)	3.32	3.00	3.22	3.01	3.01

<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	62.5	62.2	60.6	60.6	60.1
Noncore Funding to Assets (median %)	18.3	18.5	17.1	17.1	15.8
Long-term Assets to Assets (median %, call filers)	8.6	8.9	10.3	10.3	11.8
Brokered Deposits (number of institutions)	66	58	58	58	49
Brokered Deposits to Assets (median % for those above)	4.1	3.6	3.2	3.2	2.6

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	87.2	83.7	82.8	82.8	81.6
Commercial Real Estate	84.9	83.8	74.2	74.2	70.8
<i>Construction &amp; Development</i>	11.9	12.0	10.3	10.3	10.6
<i>Multifamily Residential Real Estate</i>	0.4	0.5	0.0	0.0	0.0
<i>Nonresidential Real Estate</i>	64.4	58.6	56.6	56.6	53.9
Residential Real Estate	119.6	119.8	125.7	125.7	122.9
Consumer	39.2	39.1	41.5	41.5	47.8
Agriculture	147.9	142.6	146.0	146.0	146.1

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Kansas City, MO-KS	152	32,593	< \$250 million	327 (88.1%)
Wichita, KS	58	8,453	\$250 million to \$1 billion	35 (9.4%)
Topeka, KS	38	4,216	\$1 billion to \$10 billion	9 (2.4%)
St. Joseph, MO-KS	26	1,762	> \$10 billion	0 (0%)
Lawrence, KS	25	1,405		